NCUA News National Credit Union Administration
December 2009 Number 11

Net worth remains strong, market challenges continue in third quarter

Credit union net worth remained above 10 percent, the return on average assets is modest at 0.28 percent, membership and lending grew despite overall stress in the economy in the third quarter, but delinquencies also increased according to call report data submitted by the nation's 7,637 federally insured credit unions.

According to the report, credit cards and used auto lending gained momentum in the third quarter, and first mortgage real estate loans continued to grow, although the pace slowed.

As a continued reflection of stress in the job market and a faltering economy, delinquent loans as a percentage of total loans increased from 1.37 percent at year-end 2008 to 1.68 percent through September 30, 2009, although the rate of increase has slowed. And, net charge-offs to average loans grew from 0.85 percent to 1.17 percent.

"These numbers buttress the case for increased regulatory oversight as credit unions deal with adverse economic conditions," noted NCUA Chairman Debbie Matz. "While credit union net worth remains strong at 10.05 percent, and evidences a slight 2 basis point gain above the mid-year level, the overall environment for financial institutions and consumers remains challenging. Credit unions must consider the unemployment rate, housing market weakness and overall economic volatility as they continue serving member needs. Likewise, NCUA is enhancing our supervision, and increasing the number of examiners and frequency of examinations, all of which reflect our strong commitment to assisting credit unions during this difficult time."

Details of major balance sheet items and member growth in federally insured credit unions from December 31, 2008, to September 30, 2009, follows:

- Assets increased 7.7 percent to $874.0 billion from $811.2 billion;
- Loans grew 1.7 percent to $575.5 billion from $566.0 billion;
- Shares increased 8.4 percent to $738.4 billion from $681.1 billion;
- Investments increased 24.7 percent to $206.6 billion from $165.7 billion;
- Net worth grew 2.0 percent to $87.9 billion from $86.2 billion; and
- Membership increased 1.9 percent to 90.3 million from 88.6 million members.

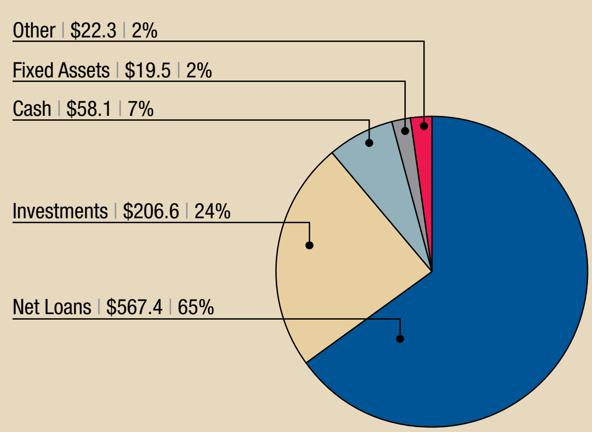
Because share growth significantly outpaced loan growth, the loan-to-share ratio declined to 77.9 percent from 83.1 percent during the year. The result was significant growth in investments.

Within share accounts, share drafts increased 5.6 percent, regular shares grew 10.2 percent, money market shares grew 18.5 percent, share certificates grew 1.1 percent, and IRA/KEOGH accounts grew 12.0 percent. Lending saw used automobile loans produce 4.5 percent growth, while first mortgage real estate loans and lines of credit grew 4.1 percent in the first nine months of 2009. Meanwhile, new automobile loans declined 3.2 percent and other mortgage loans declined 3.5 percent.

To protect against potential losses, federally insured credit unions increased provisions for loan and lease losses by 30.7 percent. Over $2 billion is now set aside to cover real estate loan losses in the nation's federally insured credit unions, and the number of real estate loans over 2 months delinquent, as a percentage of total real estate loans, increased from 1.20 percent at year-end 2008 to 1.79 percent at September 2009.

Details of September 2009 data are available in an Aggregate Financial Performance Report (FPR) and a September 2009 Facts Summary posted online at http://www.ncua.gov/DataServices/FOIA/foia.aspx.

Asset Distribution (In billions)



HIGHLIGHTS

Chairman's Corner

Extraordinary times demand extraordinary response

My number one goal as Chairman of this agency is for NCUA to be recognized as a fair and effective regulator that sets the highest standards for safety and soundness. NCUA's 2010 budget will empower the agency to achieve this goal.

We are increasing the budget by $23 million (13 percent), which will, amongst other things, permit us to hire 74 more staff.

We've devoted a great deal of time to making NCUA's budget as strong and efficient as possible. I realize the proposed increases in dollars and staff are extraordinary. But we are living in extraordinary times.

I believe these increases are necessary for two reasons:

1. The state of the credit union industry and
2. Past budget reductions.

Many of you have heard me share my concerns about credit unions' decline in capital, and the growing size of credit unions with CAMEL Codes 3, 4 and 5. Most troubling is the growing number and size of credit unions downgraded to CAMEL 4 and 5:

- Assets of credit unions in these most severely troubled categories have almost doubled since last year;
- During the Share Insurance Fund update at our Board meeting last month, we reported over 330 problem credit unions hold nearly $40 billion—representing over 5 percent of all insured shares.
- This is the most shares at risk in over a decade.

In addition, the shares held by CAMEL 3 credit unions have increased by 27 percent to over $87 billion. If we don't take corrective action now, today's CAMEL 3s could become tomorrow's CAMEL 4s and 5s.

But I am confident that the 2010 budget will provide the tools this agency needs:

- To uphold credit unions' safety and soundness; and
- Protect over 90 million credit union members.

To put this budget into perspective:

- From 2002-2007, NCUA's budget was virtually flat. In two of those years, the budget actually decreased.
- NCUA staff was cut by 91 full-time employees. This meant fewer examiners and fewer exams. Instead of examining every credit union annually, NCUA extended the exam cycle for most credit unions to 18 months.

The convergence of these extraordinary trends has dictated that for the second year in a row, the NCUA Board needed to compensate for past budgetary decisions in order to do the agency's job effectively.

Fortunately, the 2009 budget began moving NCUA in the right direction. I commend former Chairman Fryzel and Board Member Hyland for increasing the 2009 budget by 12 percent. This long-overdue increase enabled NCUA to begin reestablishing positions for needed examiners, problem case officers, and loss/risk analysis officers.

Next year, we will continue on this responsible course. The vast majority of the budget increase in 2010 will likewise be invested in new hires who will help keep credit unions safe and sound. Fifty-seven new employees will contribute directly to NCUA's examination program.

I realize that a 13 percent increase in the budget may appear excessive. But in fact, 2009 and 2010 will simply get NCUA back to the budget trajectory and staffing levels where the agency should have been all along:

- If NCUA had simply increased its budget 4 percent per year for the past 10 years, the budget for 2010 would be essentially what our Board approved last month. (See Figure 1, page 5).
- NCUA's budgeted staffing level for 2010 is the first to compare favorably with the workforce the agency had in the year 2000. (See Figure 2, page 5).

These dollars and staff will get us back on track to return to an annual examination cycle.

And our examiners will be better trained. All current and new NCUA examiners will receive state-of-the-art training to deal with current issues and trends. In fact, we'll move up our regional conferences to the spring from the summer to give our field staff intensive training as soon as possible.

My intent is not simply preserve the status quo. So I'm very pleased that our 2010 budget includes several new initiatives that will help take this agency to the next level.

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NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

Debbie Matz, *Chairman*
Christiane Gigi Hyland, *Board Member*
Michael E. Fryzel, *Board Member*

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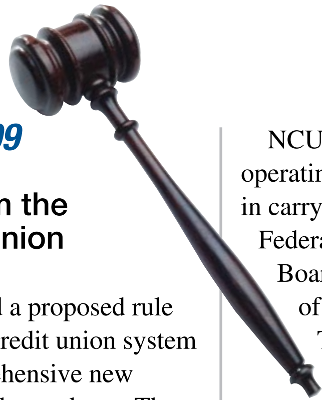

Board actions November 19, 2009

Proposal to reform the corporate credit union system

The NCUA Board issued a proposed rule to reform the corporate credit union system by establishing a comprehensive new framework for safety and soundness. The proposed reforms are intended to enhance NCUA regulatory oversight and address deficiencies in the current rule.

The revisions would strengthen four areas of corporate credit union regulation:

- **Capital Standards**—requiring retained earnings and Prompt Corrective Action;
- **Asset/Liability Management**—preventing mismatches and preserving liquidity;
- **Risk Concentration Limits**—ensuring diverse investment pools and risk mitigation; and
- **Governance**—setting board qualifications and increasing transparency.

Each reform would directly improve an aspect of current oversight critical to the proper functioning of the corporate system. Lack of adequate capital standards, insufficient asset/liability management tools, and unacceptably high risk concentrations were problems identified by NCUA and stakeholders during development of the proposal.

Chairman Matz plans to host two more Town Hall meetings and another webinar during the upcoming 90-day comment period. The proposed rule is available online at http://www.ncua.gov/Resources/RegulationsOpinionsLaws/ProposedRegulations.aspx.

NCUA decreases 2010 operating fees 1.58 percent

The NCUA Board approved a 1.58 percent decrease in natural person federal credit union 2010 operating fees due to a rate adjustment. The asset level dividing points for the operating fee scale will increase by 8.50 percent, which is federal credit unions' estimated asset growth level in 2009.

NCUA assesses federal credit unions an operating fee to finance expenses incurred in carrying out its responsibilities under the Federal Credit Union Act. Each year, the Board determines the fee, the method of assessment and date of payment. The Board also considers NCUA's budget and federal credit unions' ability to pay when determining the operating fee.

The operating fee will be collected by April 2010. Corporate federal credit unions' rate scale remains unchanged.

NCUA Board approves 2010 budget to strengthen supervision

The NCUA Board adopted a 2010 budget of $200,923,512, representing a $23,059,830 (13%) increase, the majority of which is slated to fund current and new agency programs to enhance the Agency's safety and soundness mission.

Please see the *Chairman's Corner* on page 2 for details concerning the approved 2010 budget.

Overhead transfer rate set at 57.2 percent for 2010

The NCUA Board established an overhead transfer rate of 57.2 percent for 2010. The transfer rate is the percentage of NCUA operations funded by the National Credit Union Share Insurance Fund (NCUSIF) based on operating expenses associated with insurance related functions.

The increase from 53.8 percent in 2009 to 57.2 percent in 2010 for the NCUSIF overhead transfer rate can be attributed to the following factors:

- The 2010 workload budget for federal supervision increased by over 17,000 hours.
- Examiners reported spending 67.3 percent on insurance related procedures for the time survey ending May 2009, compared to 63.9 percent in the previous cycle for onsite supervision.
- The 2010 workload budget for state examination and supervision increased over 35,000 hours.
- The 2010 budget for the cost of NCUA resources and programs increased over the previous year.

NCUSIF assessment rule amended

The NCUA Board approved a final rule amending §741.4 clarifying calculations for premiums and deposit recapitalization for credit unions insured by the NCUSIF for a portion of the year.

Section 741.4 addresses capitalization and maintenance of the NCUSIF. The amendment addresses how premiums and deposit recapitalization are calculated when a credit union either enters or departs NCUSIF protection in a year with an assessment. The revisions include specific calculations for assessments and distributions for institutions entering or leaving NCUSIF. Examples included address how the calculations apply in various situations in new appendix A to Part 741.

Report on NCUSIF

October 31, 2009, the NCUSIF reserve balance was $672.8 million for natural person credit unions, a significant increase from 2008 year-end NCUSIF reserves of $278.3 million, which reflects NCUA's aggressive stance to protect against future losses. The Temporary Corporate Credit Union Stabilization Fund reserve balance was $5.33 billion at October 31, 2009.

NCUSIF year-to-date revenue and expense includes investment income of $159.3 million, projected premium income of $800 million, operating expense of $108.8 million, and insurance loss expense of $527.6 million. Through October 31, 2009, NCUSIF net income was $354.7 million.

The NCUSIF equity ratio is 1.28 percent and assumes the collection of a .1027 premium, estimated at $800 million, approved at the September 2009 Board meeting and due in December 2009.

Twenty-two federally insured credit unions failed through October at a cost of $110.6 million—12 were involuntary liquidations (7 became purchase and assumptions) and 10 were assisted mergers.

There were 337 problem code credit unions October 31, 2009, with shares of $39.8 billion representing 5.58 percent of total insured shares. In comparison, 271

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Appearance calendar

Date: January 20, 2010
Who: Board Member Gigi Hyland
Event: Volunteer Leadership Institute
Location: Maui, HI
Contact: Jessica Vogel at
jvogel@ncua.gov or 703-518-6318

Date: January 22, 2010
Who: Chairman Debbie Matz
Event: Town Hall Meeting
Location: Dallas, TX
Contact: Angela Sanders at
asanders@ncua.gov or 703-518-6309

Date: January 22, 2010
Who: Board Member Michael Fryzel
Event: Town Hall Meeting
Location: Dallas, TX
Contact: Katie Supples at
ksupples@ncua.gov or 703-518-6307

Date: January 30, 2010
Who: Board Member Michael Fryzel
Event: Grand Opening of Polish and Slavic Federal Credit Union
Location: Norridge, IL
Contact: Katie Supples at
ksupples@ncua.gov or 703-518-6307

Letter provides flexibility in earnings evaluations

NCUA recently issued *Letter to Credit Unions 09-CU-23, Reviewing Adequacy of Earnings*, to provide the agency's guidance to examiners for determining an adequate earnings level and to emphasize the importance of evaluating earnings in relation to overall risk. Examiners are being asked to look beyond the ratios and review the actual income and expense structure of credit union operations to assess the adequacy of earnings. This letter to credit unions emphasizes previous guidance on the assessment of earnings adequacy, effects of corporate stabilization and how the CAMEL rating relates to risk assessment.

With the current economic environment creating pressure on the ability to generate consistent, positive earnings, the trend for federally insured credit union earnings ROA (return on assets) and net worth ratio has significantly fluctuated. Last year, when credit unions restated call reports based on stabilization efforts, they reported substantial reduced ROA and net worth, and accorded for the stabilization expenditure in different ways. The impact on income and inconsistency in reporting continued in 2009. Significant changes and the fact earnings impact spans several reporting periods makes evaluation and earnings trending more challenging.

The letter also stresses the importance of examiners communicating with credit union officials and management. The letter states, "healthy dialogue will help credit unions fine-tune and execute their strategies effectively. It also enables NCUA to balance the mandate to protect the Share Insurance Fund while supporting credit unions in fulfilling their mission of providing financial services for provident and productive purposes to all members."

Examiners are instructed to consider all available quantitative and qualitative factors that affect the credit union's financial condition.

Letter to Credit Unions 09-CU-23 is available online at http://www.ncua.gov/Resources/LettersCreditUnion.aspx.

New from NCUA

Regulatory Alert No: 09-RA-13—Notifies federally insured credit unions the Federal Reserve Board has changed the minimum level of points and fees when lenders must provide consumers with disclosures for home equity and certain mortgages with high rates of interest or assessed high fees and points.

The minimum threshold for total fees and points will decrease from $583 to $579 effective January 1, 2010, based on the June 2009 Consumer Price Index. If total points and fees exceed the greater of $579 or 8 percent of the loan amount, Section 32 of Regulation Z requires lenders to provide borrowers additional disclosures. Credit insurance premiums for insurance written in connection with the credit transaction are fees for the purpose of this computation. Few, except risk-based credit union real estate loans, should require these additional disclosures.

Additional information is available online at http://www.ncua.gov/Resources/RegulatoryAlerts/index.aspx.

Board Actions

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problem code credit unions held shares of $16.3 billion representing 2.70 percent of total shares at year-end 2008.

Currently, there are 1,640 code 3 credit unions, an increase of 106 from year-end 2008. These institutions represent $87.7 billion or 12.52 percent of total shares. In addition to diligently working to resolve the problems of code 4 and 5 credit unions, NCUA is closely tracking code 3 credit unions and striving to sustain these institutions at safe operating levels.

2010 NCUSIF & stabilization premiums predicted

NCUA expects failures to increase in 2010 and is estimating credit unions will be assessed between a 0.15 and 0.40 percent premium in 2010.

Board votes are unanimous unless otherwise indicated. Details of Board meeting items are online at http://www.ncua.gov/GenInfo/BoardandAction/DraftBoardActions/index.aspx.

Chairman's Corner

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Office of Consumer Protection

NCUA's newly budgeted Office of Consumer Protection is intended to make certain that our agency:

- Thoroughly applies all relevant consumer protections;
- Reviews every NCUA regulation for consumer friendliness;
- Promotes helpful tools for consumers such as financial education; and
- Encourages credit unions to reach out to serve all eligible consumers.

The new office plans to organize these important functions into two divisions:

- Division of Consumer Protection and
- Division of Consumer Access.

The goal for this new office is to become a model for other government agencies.

Office of the Chief Economist

While examiners are in the field focusing on individual credit union issues, NCUA's exam program will benefit by having a team of experts looking at the big picture.

Outreach Efforts

Another key to success will be to ensure that communications flow in all directions, not just from the top down, but also from the regions to our central office and between the agency and credit union stakeholders.

The 2010 budget will allow NCUA to expand outreach efforts that encourage exchanges of ideas and innovations:

- Town Hall meetings;
- Webinars;
- Regional conferences; and
- Media campaigns.

When we put it all together, this budget was produced to be as strong and efficient as possible:

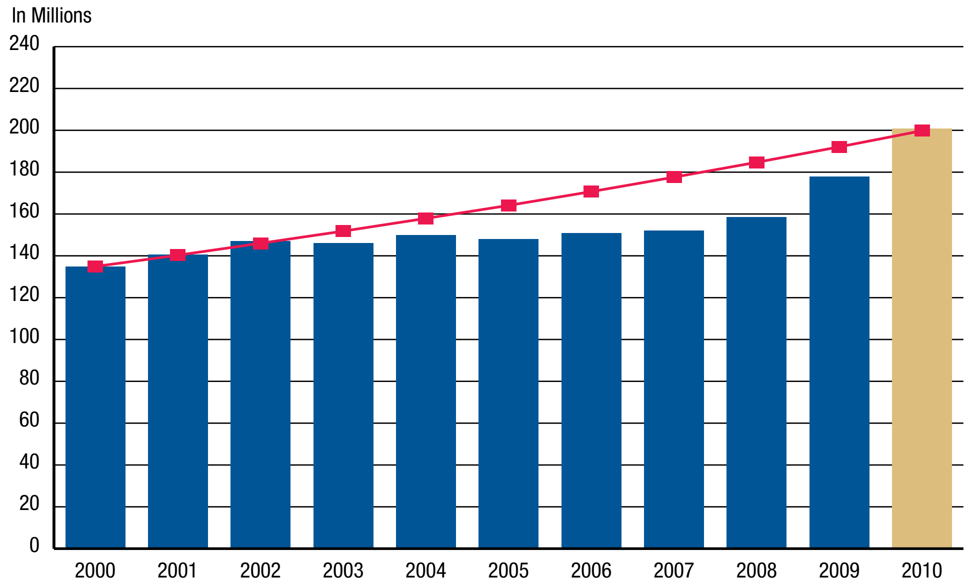
- 73 cents of every budgeted dollar will go directly toward 'boots on the ground;'
- Realigning several offices will also increase efficiency; and
- We are spinning off the National Examination Team, which did a superb job identifying complex risks in large credit unions.

NCUA will play a critical role during this unprecedented stretch in credit union history. We are building stronger lines of defense against systemic risk throughout the credit union industry.

In these challenging times, we have a tremendous amount of work ahead. But we are firmly committed to giving every employee the resources they need to do their jobs effectively.

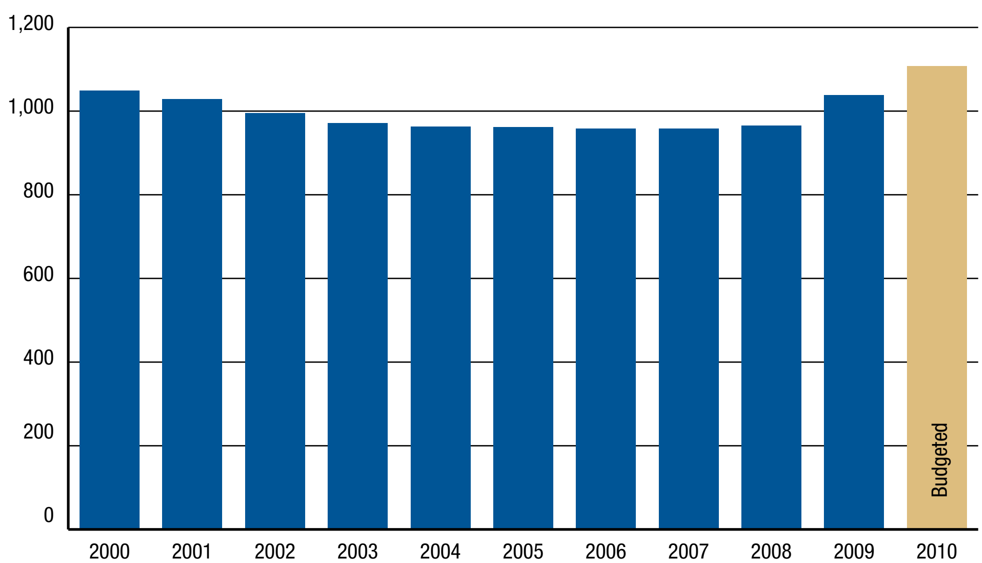
Chairman Debbie Matz

Figure 1. Projection of 2000 budget at 4% annual growth



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Actual Budget	134.9	140.6	147.0	146.1	149.9	148.0	150.8	152.0	158.6	177.9	200.9
Projected Budget	134.9	140.3	146.0	151.8	157.9	164.2	170.7	177.6	184.7	192.1	199.7

Figure 2. NCUA full-time staff or full-time equivalents (FTE)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Authorized FTE	1,049	1,029	995	971	963	961	958	958	965	1,038	1,107

Matz calls for lifting statutory member business lending cap

NCUA Chairman Debbie Matz is urging the Department of Treasury to support increasing or eliminating the statutory cap on credit union member business lending, and allow NCUA to establish the regulatory parameters.

"I believe any lending limitations should be regulatory, not statutory. NCUA is best positioned to set requirements and maintain limits on member business lending, utilizing our direct supervisory knowledge and application of firm safety and soundness standards," Chairman Matz stated in a November 24 letter to Treasury Counselor Gene Sperling. The correspondence was in response to a request from Sperling for additional policy suggestions following a recent Small Business Financing Forum hosted by Treasury and the Small Business Administration and attended by Chairman Matz.

"Historically, credit unions have been successful at making member business loans," Chairman Matz noted. "NCUA supports a proper balance of serving business lending needs with a prudent regulatory framework to protect safety of the institutions and of the National Credit Union Share Insurance Fund. NCUA encourages the Department of Treasury and the Small Business Administration to support legislative and regulatory enhancements that will empower well-managed credit unions to make more business loans to members who need them. This will in turn help achieve your overarching goals to create jobs and grow the economy."

View Chairman Matz letter online at http://www.ncua.gov/news/press_releases/2009/PDF/GSperlingLtr.pdf.

Share guarantee program extended

The NCUA Temporary Corporate Credit Union Share Guarantee Program expiration date has been extended from December 31, 2011, to March 31, 2012. With this extension, new investments with maturities of two years or less in participating corporate credit unions made before March 31, 2010, will be fully covered by the guarantee program. This is in addition to existing deposits already covered.

Fresh round of Town Hall sessions set

NCUA Chairman Debbie Matz announced a new round of NCUA Town Hall meetings. The sessions, similar to those held in the fall, are part of an agency effort to gain stakeholder input about the corporate rulemaking process and other important issues. Being held in Dallas, Texas, Friday, January 22nd and in Orlando, Florida, Thursday, February 4th, the sessions will begin at 9:00 a.m. and end at noon. A webinar will follow in February.

Participants can register online at http://www.ncua.gov/GenInfo/Members/Matz/meetings2010.aspx.

"The first round of Town Halls provided invaluable insight and dialogue as we formulated the proposed corporate regulation. These next meetings will build on that foundation," stated Chairman Matz.

"The proposed corporate rule, approved at our November 19th Board meeting, has a 90-day comment period. During this time, we are hoping to hear from all interested stakeholders in written form or in these Town Hall meetings. I encourage all interested parties to add their voices to this process."

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